

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-09 ISO-00 AID-05 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 INT-05 AGR-10 /117 W
----- 115080

R 250915Z AUG 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1832

TREASURY DEPT WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 12833

PASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - AUGUST 19-25

1. SUMMARY: DEPARTMENT STORE SALES ROSE IN JULY, ALTHOUGH MOST OF THIS INCREASE WAS CONCENTRATED IN SMALLER CITIES. REVISED FIGURES SHOW INDUSTRIAL PRODUCTION AND SHIPMENTS REGISTERED MUCH STRONGER INCREASES IN JUNE THAN INITIALLY ESTIMATED. LABOR MARKET CONDITIONS IN JUNE SHOWED LITTLE IMPROVEMENT; NUMBER OF UNEMPLOYED WORKERS WAS UNCHANGED AND MANUFACTURING OVERTIME DECLINED. EXPORT PRICES DIPPED SLIGHTLY IN JULY WHILE IMPORT PRICES REMAINED UNCHANGED; BOJ SAID FAILURE OF THESE CONTRACT PRICE INDICES TO RISE WAS DUE TO APPRECIATION IN YEN VALUE DURING THAT MONTH. BOJ DENIES NEWS REPORTS THAT IT IS "ACCELERATING" YEN SHIFT.

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NET FOREIGN PURCHASES OF JAPANESE SECURITIES SOARED TO

HIGHEST LEVEL IN OVER A YEAR IN JULY, WHILE AUTHORIZATIONS FOR NEW BOND ISSUES ABROAD BY JAPANESE ENTERPRISES ALMOST DOUBLED IN JULY. END SUMMARY.

2. JULY DEPARTMENT STORE SALES ROSE 1.7 PERCENT FROM PRPOM MONTH ON SEASONALLY ADJUSTED BASIS. INCREASE WAS RESULT OF STRONG 3.4 PERCENT UPSWING IN SALES AT STORES IN SMALLER CITIES. DEPT STORE SALES IN SIX MAJOR METROPOLITAN AREAS WERE UNCHANGED AND SALES AT DEPT STORES IN TOKYO FELL 1.7 PERCENT IN JULY. SINCE FEB, INCREASES SALES AT DEPT STORES IN JAPAN'S SMALLER CITIES HAVE BEEN THE MAIN CONTRIBUTOR TO RISE IN DEPT STORE SALES INDEX (JEI 302, S.A.); WHEREAS SALES AT STORES IN TOKYO AREA HAVE DECLINED IN FOUR OF THE LAST FIVE MONTHS COMMODITIES REGISTERING SALES INCREASES FOR JULY INCLUDED CLOTHING AND FOODSTUFFS.

(INDEX 1970-100) (PERCENT CHANGE FROM PRIOR MONTH)

MAY	247.0	3.4
JUNE	242.3	MIN 1.9
JULY	244.6	1.0

3. JUNE RISE IN MINING AND MANUFACTURING PRODUCTION WAS 1.3 PERCENT, A MUCH LARGER INCREASE THAN INITIALLY ESTIMATED. REVISED SEASONALLY ADJUSTED DATA RELEASED BY MITI THIS WEEK ALSO INDICATED A 1.5 PERCENT MONTHLY INCREASE IN PRODUCERS' SHIPMENTS (JEI 239) IN JUNE, A SHARP CONTRAST TO MODEST 0.6 PERCENT INCREASE INITIALLY REPORTED. RATIO OF INVENTORY OF FINISHED GOODS TO SHIPMENTS (JEI 235) DECLINED 2.5 PERCENT. UPWARD REVISION IN MINING AND MANUFACTURING PRODUCTION FIGURES WAS PARTLY RESULT OF 5.4 PERCENT INCREASE IN PRODUCTION OF FOOD AND TOBACCO PRODUCTS, A SECTOR NOT COVERED IN PRELIMINARY SURVEY. TRANSPORTATION EQUIPMENT ALSO REGISTERED LARGE PRODUCTION INCREASE WITH MAIN THRUST OF JUNE'S 5.9 PERCENT RISE PROVIDED BY HIGHER OUTPUT OF MOTOR VEHICLES. PRODUCERS' SHIPMENTS OF FOOD AND TOBACCO PRODUCTS ROSE 7.4 PERCENT IN JUNE AND SHIPMENTS OF OIL AND COAL PRODUCTS ROSE 6.5 PERCENT. FURTHER DETAILS ON REVISED JUNE MINING AND MANUFACTURING PRODUCTION, SHIPMENTS, AND INVENTORY STATISTICS REPORTED TOKYO 12688.

PRODUCTION, SHIPMENTS AND INVENTORY TO SHIPMENTS RATIO
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(INDEX, 1970-100, PCT CHANGE FROM PRIOR MONTH IN PAREN)

	MIN. & MFG. PRODUCTION	PRODUCERS' SHIPMENTS	INVENTORY TO SHIPMENTS RATIO
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QTRLY AVGS.:

1975 OCT-DEC	112.3 (0.8)	117.4 (2.1)	137.7 (-1.9)
1976 JAN-MAR	118.8 (5.8)	124.1 (5.7)	129.7 (-5.8)
APR-JUNE	125.2 (5.4)	129.3 (4.2)	122.1 (-5.9)

MONTHLY DATA:

APR	126.2 (3.0)	128.5 (-1.6)	123.2 (1.5)
MAY	123.9 (-1.8)	128.8 (0.2)	123.1 (-PMQL)
JUNE	125.5 (1.3)	130.7 (1.5)	120.0 (-2.5)

4. LABOR MARKET CONDITIONS SHOW LITTLE IMPROVEMENT IN JUNE. ALTHOUGH NUMBER OF FULLY UNEMPLOYED WORKERS (JEI 378) REMAINED AT SAME LEVEL AS IN PRIOR MONTH, AN INCREASE IN NUMBER OF JOB SEEKERS RESULTED IN SLIGHT RISE IN UNEMPLOYMENT RATE (JEI 379). JOB OFFERS TO JOB APPLICANTS RATIO (JEI 386) INCHED UPWARD FROM MAY LEVEL BUT REMAINS FAR BELOW PREVIOUS PEAK OF 1.88 RECORDED IN JULY 1973. DESPITE FAILURE OF THAT RATIO TO INCREASE SIGNIFICANTLY DURING RECOVERY, NEWS REPORTS INDICATE THAT UNIVERSITY AND HIGH SCHOOL GRADUATES WHO ENTERED THE LABOR MARKET THIS SPRING HAVE BEEN ABSORBED WITH LESS DIFFICULTY THAN PREVIOUSLY EXPECTED. (NOTE: PRIME MINISTER'S OFFICE USES DIFFERENT SEASONAL ADJUSTMENT FACTORS TQN EPA. JUNE UNEMPLOYMENT RATE AS REPORTED BY PRIME MINISTER'S OFFICE WAS 1.9 AND IS OFTEN CITED IN PRESS REPORTS.

	JOB OFFERS TO APPLICANTS RATIO, S.A.	UNEMPLOYED, S.A. (1,000)	(RATE)
APR	0.68	1,080	2.00
MAY	0.64	1,110	2.08
JUNE	0.65	1,110	2.09

5. JUNE INDEX OF OVERTIME WORKED IN MANUFACTURING DECLINED 1.5 PERCENT ON SEASONALLY ADJUSTED BASIS. DECREASE IN OVERTIME WORKED WAS FIRST IN OVER A YEAR AND CAME AFTER EXCEPTIONALLY LARGE INCREASE REGISTERED IN PREVIOUS MONTH. RECENTLY RELEASED STATISTICS ON UNEMPLOYMENT AND RATIO OF JOB OFFERS TO JOB APPLICANTS DO NOT INDICATE A TENDENCY TO SUBSTITUTE NEW WORKERS IN PLACE OF OVERTIME HOURS

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WORKED BY REGULAR EMPLOYEES.

	INDEX, 1975-100, S.A.	PERCENT CHANGE FROM PRIOR MONTH
APR	130.4	0.9
MAY	135.8	4.1
JUNE	133.7	MIN 1.5

FOLLOWING IS REVISED INDEX OF OVERTIME HOURS WORKED IN MANUFACTURING IN 1975 AND 1976 FROM MINISTRY OF LABOR AND EPA WITH NEW BASE YEAR, 1975-100:

1975 JAN	99.8	1976 JAN	114.3
FEB	93.3	FEB	124.5
MAR	91.2	MAR	129.3
APR	92.8	APR	130.4
MAY	92.7	MAY	135.8
JUNE	95.8	JUNE	133.7

JULY	100.1
AUG	103.3
SEP	104.8
OCT	105.6
NOV	107.5
DEC	110.1

6. EXPORT CONTRACT PRICE INDEX IN YEN DECLINED 0.4 PERCENT
IN JULY WHILE IMPORT CONTRACT PRICE INDEX REMAINED VIRTUALLY

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UNCHANGED. SMALL DECLINE IN EXPORT CONTRACT PRICE
INDEX (JEI 80) WHICH IS NOT SEASONALLY ADJUSTED, WAS FIRST
DROP IN PAST NINE MONTHS. ON THE OTHER HAND, IMPORT
CONTRACT PRICE INDEX (JEI 88, N.S.A.), REMAINED UNCHANGED
IN JULY (FOLLOWING SMALL DECLINE REGISTERED IN PRIOR MONTH)
AND WAS STILL WELL ABOVE APRIL LEVEL. SHARP APPRECIATION
OF YEN AGAINST DOLLAR DURING JULY PULLED DOWN EXPORT AND IMPORT
PRICE INDICES BY 0.9 PERCENT, RESPECTIVELY, BOJ ESTIMATES.

(YEN APPRECIATED ON AVERAGE BY 1.5 PERCENT IN JULY.) BOJ HAS WELCOMED RECENT STRENGTHENING OF YEN AGAINST DOLLAR, WHICH IS EXPECTED TO HAVE FAVORABLE IMPACT ON DOMESTIC PRICES BOTH AT WHOLESALE AND CONSUMER LEVELS. (NOTE: EXPORT AND IMPORT CONTRACT PRICE INDICES FOR JUNE REPORTED ERRORNEOUSLY IN AUGUST ISSUE OF JEI AS PUBLISHED BY EPA.

EXPORT AND IMPORT CONTRACT PRICE INDICES
(1970-100, N.S.A., PERCENT CHANGE FROM PRIOR PERIOD IN PAREN)
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JAN-MAR AVG	139.3 (0.9)	215.5 (1.3)
APR-JUN AVG	140.8 (1.1)	216.1 (0.3)
MAY	140.8 (0.5)	216.6 (0.6)
JUNE	141.6 (0.6)	216.3 (MIN 0.1)
JUL	141.1 (MIN 0.4)	216.2 (0)

7. YEN SHIFT: BOJ OFFICIAL DENIES RECENT PRESS REPORTS (NIHON KEIZAI SHIMBUN, 8/19; THE JAPAN ECONOMIC JOURNAL, 8/24) THAT BOJ WILL "ACTIVELY PROMOTE" YEN IMPORT ACCEPTANCE BILLS IN ORDER TO ACCELERATE SHIFT TO DENOMINATING IMPORT TRADE IN YEN AND THEREBY "COPE WITH HIGH YEN" EXCHANGE RATE. REPORTS CITE FACT THAT ONLY 1 TO 2 PERCENT OF TOTAL IMPORTS ARE YEN-DENOMINATED WHEREAS 20 PERCENT OF VALUE OF EXPORTS ARE IN YEN. THAT IMBALANCE IN OVERSEAS DEMAND FOR AND SUPPLY OF YEN IS CONSIDERED TO HAVE CREATED "UNREST" FOR THE YEN MARKET IN EUROPE. REPORTS THEN EMPHASIZE "URGENCY" FOR COPING WITH THIS SITUATION BY ACCELERATING SHIFT TO YEN INVOICING AND YEN IMPORT USANCE FINANCING. WHILE THESE APPEAR TO BE OBJECTIVES OF SOME GOJ OFFICIALS INVOLVED IN INTL FINANCE AND TRADE, MOF AND BOJ OFFICIALS IN CHARGE OF DOMESTIC FINANCE OPPOSE PREFERENTIAL FINANCING OF YEN ACCEPTANCES. SENIOR BOJ OFFICIAL DENIES THERE HAS BEEN ANY CHANGE IN BANK'S OBJECTIVES AND POLICIES REGARDING YEN SHIFT. OBJECTIVE IS TO REMOVE CERTAIN INSTITUTIONAL BARRIERS, BY SUCH STEPS AS ISSUANCE OF "COVER BILLS" IN LARGE DENOMINATIONS TO COMBINE NUMEROUS SMALLER BILLS IN ODD AMOUNTS, THUS IMPROVING MARKETABILITY OF THESE INSTRUMENTS. BOJ INSISTS THAT A MARKET FOR YEN ACCEPTANCES DEVELOP NATURALLY WITHOUT ANY SPECIAL GOVERNMENT ASSISTANCE OR PREFERENTIAL TREATMENT. BOJ IS ADVISING BANKS TO SELL THEIR YEN EXPORT OR IMPORT BILLS IN THE BILL DISCOUNT MARKET WHICH THEN AVOIDS HAVING THESE CREDITS COUNTED IN BANKS' QUARTERLY CREDIT CEILINGS ESTABLISHED UNDER BOJ WINDOW GUIDANCE. BOJ IS RESISTING EFFORTS BY SOME BANKS AND PERHAPS MINISTRIES TO INCREASE QUARTERLY BANK CREDIT CEILINGS IN ORDER TO ACCOMMODATE YEN IMPORT TRADE FINANCING (DOLLAR TRADE FINANCING IS EXCLUDED FROM CREDIT CEILING.)

BOJ RECOGNIZES THAT DEVELOPMENT OF A MARKET FOR YEN
ACCEPTANCES DEPENDS AMONG OTHER THINGS UPON INTEREST
RATES CHARGED BY JAPANESE BANKS AS WELL AS INTL INTEREST
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RATE DIFFERENTIALS. OFFICIAL SAYS BOJ HAS NO INTENSION
WHATSOEVER IN RE-ESTABLISHING SPECIAL REDISCOUNT
FACILITIES FOR FOREIGN TRADE BILLS, AS WAS PREVIOUS BOJ
POLICY.

8. FOREIGN PURCHASES OF OUTSTANDING JAPANESE SECURITIES
REMAINED HEAVY IN JULY, MOF RECENTLY ANNOUNCED. NET
FOREIGN PURCHASES OF JAPANESE OUTSTANDING STOCKS TOTALED
\$81 MIL IN JULY, LARGEST MONTHLY AMOUNT IN THE PAST YEAR.
JULY HEAVY NET FOREIGN PURCHASES RESULTED FROM SLOW
FOREIGN SALES OF HOLDING STOCKS, REFLECTING WEAK STOCKPRICES
ABROAD AND THE RECENT APPRECIATION OF YEN,
ACCORDING TO PRESS REPORTS. HEAVY FOREIGN INVESTMENT IN
JAPANESE STOCKS IN JULY, HOWEVER, WAS EXPECTED TO BE
TEMPORARY AND MOF NOTED THAT SO FAR IN AUGUST FOREIGN
BUYING OF JAPANESE STOCKS HAS BEEN VERY SLOW. FOREIGN
PURCHASES OF JAPANESE BONDS, ON THE OTHER HAND, REMAINED
HAYV IN AUGUST, THOUGH SOMEWHAT LESS THAN IN EARLY
MONTHS OF THIS YEAR. GROSS FOREIGN PURCHASES OF JAPANESE
BONDS TOTALED \$174 MIL IN JULY, ACCORDING TO MOST
RECENT MOF RELEASE. DURING THE FIRST 20 DAYS OF AUGUST
GROSS FOREIGN PURCHASES EXCEEDED \$100 MIL LEVEL AND ARE
ESTIMATED TO REACH \$150 MIL TO \$160 MIL BY END OF AUG,
ACCORDING TO NOMURA SECURITIES CO. (NOTE: AUG FIGURE
DOES NOT INCLUDE FOREIGN PURCHASES OF BONDS DIRECTLY
THROUGH BOJ, WHICH ARE INCLUDED IN MOF DATA.) NEVERTHE-
LESS, NET FOREIGN PURCHASES OF JAPANESE BONDS IN AUGUST
ARE LIKELY TO DECLINE BELOW THE PRIOR MONTH'S LEVEL OF
\$62 MIL, IN PART DUE TO LARGE NUMBER OF MATURING BONDS
IN AUG COMPARED WITH JULY. MAJOR BUYERS OF JAPANESE
BONDS ARE REPORTED TO BE CENTRAL BANKS IN SOUTHEAST ASIA
AND OCEANIA, THOUGH NOMURA AND BOJ WOULD NOT
IDENTIFY THE SPECIFIC COUNTRIES. FOREIGN DEMAND FOR
JAPANESE BONDS IS VERY STRONG BUT SUPPLY OF THE BONDS,
WHICH CARRY A SHORT REDEMPTION PERIOD, IS VERY LIMITED;
THUS TOTAL DEMAND BY NON-RESIDENTS HAS NOT BEEN FULLY
SATISFIED, ACCORDING TO REPORT.

FOREIGN INVESTMENT IN JAPANESE SECURITIES
(IN \$ MIL, SETTLEMENT BASIS)

STOCKS	BONDS
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	PURCHASE SALES NET				PURCHASE SALES NET		
JAN-MAR AVG	273	229	44	231	89	142	
APR-JUN AVG	223	243	-20	185	78	107	
MAY	172	220	-48	152	112	40	
JUNE	334	328	6	139	72	67	
JULY	226	145	81	174	112	62	

9. NEW BOND ISSUES ABROAD BY JAPANESE ENTERPRISES
INCREASED SHARPLY IN JULY ON AUTHORIZATION BASIS.
MOF ANNOUNCED RECENTLY THAT DURING JULY IT AUTHORIZED
TEN JAPANESE ENTERPRISES TO ISSUE BONDS ABROAD TOTALING
\$292 MIL, \$175.6 MIL MORE THAN IN JUNE. THIS INCLUDED
TWO GOVT-GUARANTEED BOND ISSUES, ONE BY JAPAN DEVELOPMENT
BANK (\$100 MIL) IN THE U.S. AND ANOTHER BY JAPAN
TELEGRAPH AND TELEPHONE PUBLIC CORP. (150 MIL SF)
IN SWITZERLAND.
SHOESMITH

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